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MEMORANDUM

SUBJECT : Contracts with Hycon Corporation - Project AQUATONE

1. In the initial phase of Project AQUATONE, Hycon Mfg. was not a prime contractor. The concept of AQUATONE was proposed by the Land Committee based on Lockheed's claims for performance of a high altitude plane. It was the Land Committee that developed the theory of tying this performance to aerial photography, in which connection they called on Mr. Baker, an outstanding aerial camera designer and expert.
2. The first general meeting to consider this Project was held in the Office of Mr. Trevor Gardner, Assistant Secretary of the Air Force, and present were the representatives of the proposed prime contractors. I was introduced to Mr. Perkins, President of Perkin and Elmer, who stated he understood they were going to produce the required cameras according to Mr. Baker's design and specifications. I agreed to meet him in New York for discussion of contracts and did so a few days later. At that time, he indicated that while Perkin and Elmer was capable of producing the optical equipment, it was its custom to subcontract the and fabrication (other than optical) engineering work and that it proposed to arrange for Hycon Corporation to do the engineering. I said this was perfectly satisfactory to me

as we had no particular concern in connection with its subcontracts except as to their capability to do the work, maintenance of security, and compliance with the terms of our prime contract with Perkin and Elmer.

3. As the scope of the work developed, the portion allotted ^{and costs of supervision} to Hycon Mfg. Corporation became so large that we considered the possibility of making it a prime contract also, but in the end, due partly to security considerations and also to the fact that the arrangements were pretty well completed, it was decided to go along with Hycon Mfg. Corporation. The work under this prime contract has proceeded well and the required cameras were produced on a timely basis, considering the unique requirements and the equipment is presently performing according to specifications. The prime contract in practice has the elements of a cost plus a fixed fee so far as Perkin-Elmer is concerned, and the contract administration is well under control. The sub-contracted portion to Hycon Mfg. Corporation is an incentive type fixed price, subject to redetermination.

4. On completion of the CIA production phase, the Air Force requested CIA to enter into additional procurement for it on a reimbursable basis of additional planes of the same kind, equipped with identical camera equipment. The prime concern here for having CIA do this procurement was to maintain the elaborate security safeguards that had been thrown around the CIA portion of the procurement. CIA has, therefore, undertaken this additional procurement on behalf of the Air Force. In addition, CIA

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desires to procure additional units of some of the camera equipment as a result of additional requirements now known.

5. Since the major developmental work on the cameras had already been performed and the problem is primarily one of engineering and production, it appears desirable for the additional procurement to give up the prime contract with Parkin and Elmer and contract directly with the producer. This will result in a savings of approximately [redacted] of the anticipated cost. 25X1A

6. CIA is fully aware of Mr. Gardner's departure from the Air Force and the fact that he has returned to his former position as President of Hycon Mfg. Corporation. For this reason, CIA is considering very carefully whether to continue with Hycon Mfg. Corporation, to negotiate with other producers, or to attempt advertising for bids. The last is eliminated on the grounds that security makes advertising completely unfeasible. In considering the possibilities of negotiating with other companies, the primary elements were speed, security, cost, and satisfactory performance. On all of these Hycon is a known quantity. It had demonstrated its ability to meet urgent deadlines and to maintain very close security. Both of these requirements are vital. Other companies will have to obtain and study the specifications, consider problems of available personnel and tooling up requirement, and cost out the work. Such procedure is obviously time-consuming and to perform the work a great many additional people would have to be informed of the classified information. Hycon Mfg. Corporation has turned out a very satisfactory product of a new and complicated design with which other firms are not familiar and good actual cost information is not available.

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Consequently, there is more assurance of satisfactory results by continuing with Hycon. As far as economy is concerned, Hycon not only has its complete drawings and specifications, it has the practical advantage of having put them into effect in its own shops. Consequently, all things being equal, on a cost plus a fixed fee or even on a negotiated fixed price basis, with provision for redetermination of fixed price, Hycon Mfg. corporation, would certainly be a more economical producer than any other company of equal qualifications starting fresh on the whole project.

7. Aside from the problems of security, rapid delivery and economy, the following pertinent points are valid. Factory overhaul will be required and Hycon Mfg. Corporation is preparing to furnish this support during FY-57 and FY-58. Spares parts will be required to be stocked for this purpose and it would not be economical for two suppliers to stock such parts and to furnish such services on two sets of the same equipment, and if one of the two is selected it will be difficult to assign responsibility for defects when supplier A is performing overhaul on supplier B's equipment. Hycon Mfg. Corporation is providing technical representative services to

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[REDACTED] and similar factors would apply as in the factory overhaul situation. It is necessary that a feed back of operational results be put up on an expedited basis so that fixes can be made as required. This problem is aggravated with equipment furnished by two suppliers since compatibility of equipment, original and modified, is necessary. In general, a tremendous body of experience now exists at Hycon Mfg. Corporation, both in design experience, manufacturing experience, testing

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experience, and modification experience. To attempt to duplicate or match this body of experience in a period of eight months appears to be a waste of manpower facilities and effort.

8. Despite the fact, therefore, that Mr. Gardner had been one of the Government employees who participated in the formulation of the Project and is now connected with one of the companies holding one of Government contracts under the Project, there seemed no valid reason why CIA would not continue to contract with Hycon Mfg. Corporation; on the contrary there were very valid reasons why CIA should have

Hycon Mfg. Corporation do this particular work on the best terms that the Government could negotiate. ^{It is the considered judgment} of all concerned that, considering all the factors herein discussed, ~~that~~ the most important consideration faced at the present time is one of time available to produce the additional ^{for quantity} equipment, and that only the Hycon Mfg. Company is presently in a position to meet the operational demands facing the C.I.A. and the Air force.